

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
NOVEMBER 2014**

**CON REVIEW NH-RLS-0914-010
BEDFORD ALZHEIMER'S CARE CENTER, LLC
d/b/a BEDFORD ALZHEIMER'S CARE CENTER
RELOCATION OF 40 SKILLED NURSING BEDS FROM PEARL RIVER
COUNTY TO FORREST COUNTY, MISSISSIPPI
CAPITAL EXPENDITURE: \$4,565,915
LOCATION: HATTIESBURG, FORREST COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

Bedford Alzheimer's Care Center, LLC, d/b/a Bedford Alzheimer's Care Center ("Bedford-Alzheimer's") is a Mississippi Limited Liability Company, established in 2004. The entity, formerly known as Hattiesburg Medical Park Inc., d/b/a Conva-Rest of Hattiesburg, operates a 20-bed Alzheimer's Unit located at 300 Cahal Street in Hattiesburg, Mississippi. Bedford Alzheimer's Care Center is currently managed by Hattiesburg Medical Park Management Corporation and has four managers.

Bedford-Alzheimer's is licensed by the Mississippi State Department of Health and certified for participation in the Medicare and Medicaid programs.

B. PROJECT DESCRIPTION

Bedford Alzheimer's Care Center, LLC, d/b/a Bedford Alzheimer's Care requests Certificate of Need authority to relocate 40 skilled nursing facility beds from Bedford Care Center-Picayune, Pearl River County, to Bedford Alzheimer's Care Center, Hattiesburg, Forrest County, Mississippi. As a part of this project, Bedford-Alzheimer's will move its 20-bed facility currently located at 300 Cahal Street, together with the 40 beds relocated from Picayune, next door to 298 Cahal Street to form a 60 bed facility.

Bedford Care Center-Warren Hall, LLC, d/b/a Bedford Care Center-Picayune ("Bedford-Picayune") currently holds a CON for the construction of a 120-bed nursing facility in Picayune to replace the Warren Hall facility originally located in Hattiesburg. Bedford-Alzheimer's and Bedford-Picayune are affiliated companies.

During the development and construction of the 120-bed replacement facility in picayune, Bedford-Picayune determined that it is preferable to construct an 80-bed nursing facility in Picayune, and return the other 40 beds to their original home in Hattiesburg. If approved, this project will expand the 20-bed Alzheimer's facility in Hattiesburg to 60 beds while

reducing the 120-bed CON issued to Bedford-Picayune to 80 nursing home beds. The applicant will submit a separate CON application to amend the Bedford-Picayune CON.

The applicant's final objectives for the project are (1) to establish a more efficient facility operation through the expansion of a 20-bed nursing facility to 60 beds, (2) to relocate skilled nursing beds to an area having higher demand, and (3) to make additional skilled nursing beds dedicated to Alzheimer's patients available in the community.

The 26,300 square feet building located at 298 Cahal Street is owned by Conva-Rest Monroe Hall, Inc., another affiliated entity of the applicant's, and the building is currently vacant. The total proposed project cost to renovate the building is \$4,565,915, funded by a bank loan from The Citizens Bank of Philadelphia, with a 4.50% interest for a term of five years. The loan is based upon an amortization of 20 years with monthly "interest only" payments for the first 18 months. A complete breakdown of capital expenditure is presented in the Capital Expenditure section of this staff analysis. The applicant expects to obligate the capital expenditure immediately upon final CON approval and anticipates that the project will be complete by March 2015.

The Division of Health Facilities Licensure and Certification has approved the site for the 60 bed facility.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the relocation of health care facilities or portion thereof, major medical equipment, and services under the applicable statutory requirements of Section 41-7-191, subparagraph (1)(b), (c), and (e) of the Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code of 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires December 11, 2014.

III. CONFORMANCE WITH THE STATE PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The *FY 2014 Mississippi State Health Plan (MSHP)* does not contain criteria and standards for or relocation of long term care beds and services as proposed by this application. However, the *Plan* provides guidelines and overall objectives for all health planning in Mississippi. The project is not consistent with the goal of the *FY 2014 MSHP* to

increase the accessibility, acceptability, continuity, and quality of health services.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 Revision*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 - State Health Plan (SHP)

The FY 2014 *State Health Plan* does not contain criteria and standards for the relocation of long term care beds as proposed in this application. The project is not in substantial compliance with the overall goals of the State Health Plan.

GR Criterion 2 - Long Range Plan

The applicant submits that one of the immediate and long-range goals of the applicant and its affiliated facilities is to provide services in areas having the greatest demand. By returning 40 skilled nursing beds to Hattiesburg in order to expand the Bedford-Alzheimer's facility, the applicant believes it will achieve greater clinical efficiency and make additional dedicated Alzheimer's beds available to the community.

GR Criterion 3- Availability of Alternatives

The applicant states that after reviewing financial and operational issues, as well as demand for long-term care services in Hattiesburg and Pearl River County, Bedford-Alzheimer's determined that the preferable course of action was the relocation of the 40 beds to Hattiesburg.

Bedford-Alzheimer's believe that this project will benefit the health care system by expanding the availability of dedicated Alzheimer's beds in Hattiesburg, and by enabling it to operate on a more efficient basis as a 60-bed facility.

GR Criterion 4 - Economic Viability

Based on the Income Statement with Project, as provided in the application, the project will be economically viable by the second year of operation. The applicant projects a loss the first year of \$222,162 and profits the second and third years of \$42,091 and \$43,393, respectively.

The applicant states that Bedford-Alzheimer's and Hattiesburg Medical Park Management Corporation have extensive experience with Medicare and Medicaid reimbursement and believes that the proposed charges and profit-loss projections are reasonable and consistent with the experience of comparable facilities.

The applicant further states that both the historical and projected levels of utilization of nursing facility services are consistent with the experience of

Bedford-Alzheimer's affiliated facilities in the service area and State, and are consistent with the need level in the service area.

GR Criterion 5 - Need for the Project

Bedford-Alzheimer's believes that the proposed project addresses the need of the population to be served in four different and significant respects:

1. Demand for Alzheimer's Services. The applicant currently operates 20 beds and maintains an occupancy rate in excess of 90%. By expanding its beds to 60, the facility will be able to accommodate additional residents in need of these specialized services.
2. Response to Local Demand and Utilization Patterns. Although both Pearl River County and Forrest County show a need for additional nursing beds in the *State Health Plan*, the average occupancy rate of nursing facilities in Pearl River County is 86.7%, while the average occupancy rate for nursing facilities in Forrest County is 90.06%. Forrest General Hospital and Hattiesburg Clinic are also located in Hattiesburg, Forrest County. Bedford-Alzheimer's believes that by relocating 40 skilled nursing beds to a major medical community, it is addressing the need of that population for additional resources in the areas of long-term care.
3. Improved Continuity of Care. Through its relationships with Forrest General Hospital, Hattiesburg Clinic, and other health care providers in the Hattiesburg area, Bedford-Alzheimer's states it will be able to provide an improved continuity of care by expanding its facility, which will benefit the health needs of the residents of the service area.
4. Greater Operational Efficiency. Bedford-Alzheimer's states It is much more efficient to operate a 60-bed skilled nursing facility than a 20-bed facility, due to minimum staffing requirements and other factors. The applicant states the project will benefit the needs of the population served by Bedford-Alzheimer's by enabling that facility to provide more efficient and cost-effective services.

The applicant further asserts that by returning 40 skilled nursing beds to Hattiesburg, Bedford-Alzheimer's will be able to serve the needs of all residents of the community, including low income persons, Medicaid recipients, racial and ethnic minorities, and other underserved groups.

In case of relocation of beds or service, the Department must consider factors which include, but are not limited to the need that the population presently served has for the beds or service and the extent to which that need will be met adequately by the proposed relocation or by alternative

arrangements. The *FY 2014 State Health Plan* indicates that LTCPD IV has a need for 2,181 nursing facility beds district-wide. However, Pearl River County (wherein the 40 beds are currently located) has a need for 82 beds while Forrest County has a need of only 47 beds (See table below). The relocation of 40 beds from Pearl River County to Forrest County will result in the re-distribution of nursing facility beds from an area of greater need to an area of lesser need. If approved, Pearl River County would have a need for 122 nursing facility beds while the need in Forrest County will be reduced to 7 beds. As identified by the *Plan*, one of the goals of health planning is to increase the accessibility, acceptability, continuity, and quality of health services.

Although the applicant points out that the occupancy rate in Forrest County is larger than that in Pearl River County, as seen below, the difference in the occupancy rates of the two counties is not that great. Staff contends that the applicant has not adequately demonstrated a need for the relocation of 40 beds from Pearl River County to Forrest County.

**Comparison of Occupancy Rates and Bed Need
 Forrest County vs Pearl River County**

Forrest County	Beds	Occ Rate	ADC	Bed Need	Dif
Bedford Alzheimer's Care	20	93.21	18.64		
Bedford Care of Hattiesburg	162	87.69	142.05		
Bedford Care Monroe Hall	60	97.12	58.27		
Bedford Care Center of Petal	60	96.52	57.91		
Hattiesburg Health & Rehab	184	94.81	174.46		
Total	486	90.06	451.33	533	47
Pearl River County					
Covenant Health & Rehab of Picayune	120	94.44	113.33		
Pearl River Co. N.H.	126	76.31	99.93		
Total	246	86.70	213.26	448	82

Source: *2012 Report on Institution of Aged or Infirm*, Bureau of Health Facility Licensure and Certification, Mississippi State Department of Health, December 2013; and the *FY 2014 Mississippi State Health Plan*

The application contains 10 letters of support from the Department of Mental Health, Alzheimer's Association, Family Health Clinics and other entities and individuals.

GR Criterion 6- Accessibility

The applicant states that in a nursing home setting, indigent residents typically qualify for Medicaid and as a result, charity care utilization is nominal. Bedford-Alzheimer's is certified for both Medicare and Medicaid participation. The 40 relocated beds will be Medicaid certified.

GR Criterion 7- Information Requirement

Bedford-Alzheimer's affirms that it will record and maintain the information required by this criterion and shall make the data available to the Mississippi Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant submits that although there are other skilled nursing facilities in the Hattiesburg area, Bedford-Alzheimer's is unique in offering beds, services and programs specifically dedicated to Alzheimer's residents.

Bedford-Alzheimer's states that implementation of 40 additional skilled nursing beds at its facility will increase operational and economic efficiency of existing services.

Staff contends that although Bedford-Alzheimer's offers services dedicated to patients with Alzheimer's disease, there are no distinct bed need in the *Plan* for beds dedicated specifically for Alzheimer's residents.

GR Criterion 9 - Availability of Resources

The applicant states that Bedford-Alzheimer's and Hattiesburg Medical Park Management Corporation have considerable experience in the staffing of nursing facilities. Accordingly, the applicant has access to the resources and personnel necessary to staff the proposed beds.

Additionally, the applicant has contractual services through Summit Rehab.

GR Criterion 10 - Relationship to Ancillary or Support Services

Bedford-Alzheimer's affirms that all necessary support and ancillary services for the proposed project are available. Any increase in the use of ancillary or support services as a result of this project will be accommodated through existing facilities and resources.

GR Criterion 11- Health Professional Training Programs

The applicant states that Bedford-Alzheimer's will continue to coordinate with any health professional schools in the area with respect to access to its services for training purposes.

GR Criterion 16 - Quality of Care

Bedford-Alzheimer's is licensed by the Mississippi State Department of Health and is certified for participation in the Medicare and Medicaid programs.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost (\$)	Percent (%) of Total
a.	Construction Cost -- New	\$ 0	0
b.	Construction Cost -- Renovation	2,916,514	63.87
c.	Capital Improvements	365,374	8.00
d.	Total Fixed Equipment Cost	500,000	10.95
e.	Total Non-Fixed Equipment Cost	133,000	2.91
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	184,429	4.03
i.	Contingency Reserve	200,000	4.38
j.	Capitalized Interest	100,000	2.19
k.	Other fees (Taxes and license)	1,598	.06
l.	Other (landscaping, canopies, etc.)	<u>165,000</u>	<u>3.61</u>
	Total Proposed Capital Expenditure	<u>\$4,565,915</u>	<u>100.00</u>

The project entails 26,300 square feet of renovation at approximately \$148 per square foot. See Attachment 2 for a calculation of construction cost. *The RS Means Construction Cost Data 2014* does not compare projects for renovation.

B. Method of Financing

The above capital expenditure is proposed for the renovation of the building located at 298 Cahal Street, Hattiesburg, Mississippi, to house 60 nursing home beds, including 40 beds relocated from Picayune, Pearl River County, and 20 existing beds located at 300 Cahal Street.

C. Effects on Operating Costs

The applicant's projections of gross revenues for the first, second, and third year of operation, expenses, and net income are shown in Attachment 1.

D. Cost to Medicaid/Medicare

The applicant projects the cost of the project to third party payors as follows (Project Only):

Bedford Alzheimer's Care Center		
Payor	Utilization Percentage	First Year Revenue
Medicaid	31%	\$ 214,683
Medicare	39%	\$ 272,174
Self Pay	29%	\$ 202,320
Commercial	0%	\$ 0
Charity Care	0%	\$ 0
Other	0%	\$ 0
Total	100.00%*	<u>\$ 689,177</u>

*Does not compute due to rounding.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The project is estimated to increase cost to the Division of Medicaid. The Division of Medicaid opposes the project.

VI. CONCLUSION AND RECOMMENDATION

This project is not in substantial compliance with the overall objectives of the FY 2014 *Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 Revision*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The relocation of 40 beds from Pearl River County to Forrest County will result in the re-distribution of nursing facility beds from an area of greater need to an area of lesser need. If approved, Pearl River County would have a need for 122 nursing facility beds while the need in Forrest County will be reduced to 7 beds. As identified by the *Plan*, one of the goals of health planning is to increase the accessibility, acceptability, continuity, and quality of health services.

Staff contends that the applicant has not adequately demonstrated a need for the relocation of 40 beds from Pearl River County to Forrest County.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of this application submitted by Bedford Alzheimer's Care Center.

Attachment 1

**Bedford Alzheimer's Care Center, LLC
 d/b/a Bedford Alzheimer's Care Center
 Relocation of 40 Skilled Nursing Beds from Pearl River County to Forrest County
 Three-Year Projected Operating Statement (Project Only)**

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care	\$689,177	\$2,878,361	\$2,950,320
Outpatient Care	0	0	0
Gross Patient Care Rev.	\$689,177	\$2,878,361	\$2,950,320
Charity Care	0	0	0
Deductions for Revenue	167,022	157,400	161,335
Net Patient Care Revenue	\$ 522,155	\$ 2,720,961	\$ 2,788,985
Total Operating Revenue	\$522,155	\$ 2,720,961	\$ 2,788,985
Operating Expenses			
Salaries	\$ 395,541	\$ 1,061,233	\$ 1,087,764
Benefits	39,900	283,406	290,491
Supplies	131,201	514,930	527,803
Services	(204,370)	(57,017)	(58,443)
Lease	80,000	193,100	197,928
Depreciation	5,021	48,897	50,119
Interest	1,000	400	410
Other	163,384	495,324	507,707
Total Operating Expenses	\$ 611,677	\$ 2,540,273	\$ 2,603,779
Net Operating Income (Loss)	\$ (89,522)	\$ 180,688	\$ 185,206
Inpatient Days	1,724	13,824	14,200
Outpatient Days	0	0	0
Procedures	0	0	0
Charge per outpatient day	0	0	0
Charge per inpatient day	\$ 400	\$ 208	\$ 208
Charge per procedure	0	0	0
Cost per inpatient day	\$ 355	\$ 184	\$ 183
Cost per outpatient day	0	0	0
Cost per procedure	0	0	0

Attachment 2

**Bedford Alzheimer's Care Center, LLC
 d/b/a Bedford Alzheimer's Care Center
 Relocation of 40 Skilled Nursing Beds from Pearl River County to Forrest County
 Construction Cost Calculation**

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$0	\$0	
Renovation Cost	\$2,916,514		\$2,916,514
Total Fixed Equipment Cost	\$500,000	\$0	\$500,000
Total Non-Fixed Equipment Cost	\$133,000		
Capital Improvements	\$365,374		
Land Cost	\$0	\$0	
Site Preparation Cost	\$0	\$0	
<i>Fees (Architectural, Consultant, etc.)</i>	\$184,429	\$0	\$184,429
<i>Contingency Reserve</i>	\$200,000	\$0	\$200,000
<i>Capitalized Interest</i>	\$100,000	\$0	\$100,000
<i>Other</i>	\$166,598	\$0	
Total Proposed Capital Expenditure	\$4,565,915	\$0	\$3,900,943
Square Footage	26,300	0	26,300
<i>Allocation Percent</i>		0.00%	100.00%
Costs Less Land, Non-Fixed Eqt., Other	\$4,432,915	\$0	\$3,900,943
Cost Per Square Foot	\$168.55	0	\$148.32